

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>City of Wyandotte Department of Municipal Services</u>	County <u>Wayne</u>
Audit Date <u>September 30, 2005</u>	Opinion Date <u>January 18, 2006</u>	Date Accountant Report Submitted To State: <u>March 31, 2006</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature  			

**City of Wyandotte, Michigan  
Department of Municipal Service**

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**Financial Report  
September 30, 2005**

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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## Independent Auditor's Report

To the Members of the Municipal Service  
Commission  
City of Wyandotte, Michigan

We have audited the accompanying basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Department of Municipal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the Department's 2004 financial statements and in our report dated December 2, 2004 we expressed an unqualified opinion on the 2004 basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Department of Municipal Service and are not intended to present fairly the financial position of the City of Wyandotte, Michigan and the results of its income and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Wyandotte, Michigan Department of Municipal Service at September 30, 2005 and the results of its income and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service. We did not examine this data and, accordingly, do not express an opinion thereon.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Department of Municipal Service's financial statements for the year ended September 30, 2004, from which such partial information was derived.

*Plante & Moran, PLLC*

January 18, 2006

A member of



A worldwide association of independent accounting firms

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis**

Our discussion and analysis of Wyandotte Department of Municipal Service's performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the Department's financial statements.

#### **Using this Annual Report**

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Department. This is followed by the statement of cash flows, which presents detailed information about the changes in the Department's cash position during the year.

#### **Financial Highlights**

##### **Electric Fund**

- The Electric Fund's operating revenue increased for the year by 13.1 percent from last year; partially due to off-system sales (wholesale sales to customers outside the City's geographic boundary).
- The Electric Fund's operating expenses increased from last year by 22.3 percent, as a result of a significant increase in fuel and power production costs.
- Accordingly, the Electric Fund's operating loss increased by approximately \$1,100,000. This operating loss caused the Electric Fund to use more of its working capital than planned (as well as monies from the capital improvement restricted asset account).
- In November 2005, the Department implemented an increase to its power supply adjustment rider to recover increased fuel and power production costs.
- In 2005, the Department entered into an agreement with BASF to provide steam service. In connection with this agreement, the Department issued bonds in 2005 to construct the steam delivery system. The agreement with BASF provides for reimbursement to the Department for one-half of the principal and associated interest of the 2005 Electric Revenue Bonds (Series A) actually used by the Department to fund the construction of the steam expansion project for a period of years.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis (Continued)**

- The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of its annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio." While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year did not exceed 110 percent (approximately 88 percent for the year ended September 30, 2005).
- Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department had to amend its budget in order to comply with this ordinance.

#### **Water Fund**

- The financial performance of the Water Fund has shown considerable improvement in the current year. The Water Fund's operating revenue increased approximately 23 percent in the current year, partially due to implemented rate increases.
- As a result of the planned rate increases, the Water Fund is starting to restore its working capital position. The Water Fund has been assisted by annual contributions from the City's Tax Increment Financing Authority for water main construction. The current year contribution was approximately \$276,000.
- This year's financial statement reports unrestricted net assets of approximately \$60,000 (as compared to a deficit of approximately \$404,000 in the prior year). The Commission is continuing to review its rate structure of the water utility, along with other options to improve the financial condition of the Water Fund.

#### **Cable Television Fund**

- The Cable Television Fund's operating revenue increased by 5.3 percent, mainly due to increases in cable Internet and basic cable revenues of \$172,000 and \$189,000, respectively.
- The Cable Television Fund's operating income increased by approximately \$158,000.
- The Cable Fund still continues to accumulate excess operating cash to retire the debt outstanding on the rebuild of its fiber optic cable network completed in 1999.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Management's Discussion and Analysis (Continued)

#### Condensed Financial Information

The following table presents condensed information about the Department's financial position compared to the prior year:

	September 30		Change	
	2005	2004	Amount	Percent
<b>Assets</b>				
Current assets	\$ 9,328,046	\$ 8,316,648	\$ 1,011,398	12.16
Restricted assets	25,077,469	13,078,445	11,999,024	91.75
Property, plant, and equipment	59,350,433	61,610,057	(2,259,624)	(3.67)
Other	1,247,670	791,786	455,884	57.58
Total assets	95,003,618	83,796,936	11,206,682	13.37
<b>Liabilities</b>				
Current liabilities	10,019,802	7,918,058	2,101,744	26.54
Liabilities payable from restricted assets	3,742,642	3,585,006	157,636	4.40
Long-term debt	49,972,416	39,960,253	10,012,163	25.06
Total liabilities	63,734,860	51,463,317	12,271,543	23.85
<b>Net Assets</b>				
Invested in capital assets - Net of debt	14,445,796	16,289,804	(1,844,008)	N/A
Restricted assets	11,622,097	11,913,439	(291,342)	(2.45)
Unrestricted	4,245,914	4,130,376	115,538	2.80
Total net assets	<u>\$ 30,313,807</u>	<u>\$ 32,333,619</u>	<u>\$ (2,019,812)</u>	N/A

The following table presents condensed information about the Department's revenues and expenses compared to the prior year:

	Year Ended September 30		Change	
	2005	2004	Amount	Percent
Total operating revenue	\$ 34,435,133	\$ 30,631,013	\$ 3,804,120	12.42
Total operating expenses	35,061,985	29,822,423	5,239,562	17.57
Operating income (loss)	(626,852)	808,590	(1,435,442)	(177.52)
Contributions	275,654	446,746	(171,092)	(38.30)
Other nonoperating expense	(1,668,614)	(1,991,736)	323,122	(16.22)
Net loss	<u>\$ (2,019,812)</u>	<u>\$ (736,400)</u>	<u>\$ (1,283,412)</u>	174.28

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis (Continued)**

#### **Capital Asset and Debt Administration**

In 2005, the Department issued two series of revenue bonds. The purposes of the bonds included the construction of a steam line in connection with its agreement with BASF, reimburse the Electric Fund's working capital for a portion of the turbine repair project completed in 2004, a future project related to the purchase and installation of an automatic meter reading system (a joint Electric and Water Fund project), diesel generators for the power plant's ability to have 'black start' capabilities, and other capital related projects.

#### **Economic Factors and Next Year's Rates**

The Electric Fund continues to be significantly impacted by fuel and power production costs. A spike in fuel costs in 2005 required the Department to increase the power supply adjustment rider contained in its electric rate structure twice. As a result, the Department in 2006 will work with a rate consultant to update its cost of service study and electric rate structure in light of the significant changes occurring to fuel costs. The Department has implemented several rate increases in the Water Fund to improve its financial condition and additional rate increases will be necessary to restore its working capital.

#### **Contacting the Department's Management**

This financial report is intended to provide our consumers and investors with a general overview of the Department's finances. If you have questions about this report or need additional information, we welcome you to contact the Department's General Manager.



# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Net Assets

	September 30				
	2005				2004
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and investments (Note 3)	\$ 966,797	\$ 785,228	\$ 772,527	\$ 2,524,552	\$ 2,124,504
Accounts receivable:					
Billed (Note 4)	1,521,235	144,042	317,885	1,983,162	2,050,837
Unbilled	1,883,671	192,300	-	2,075,971	1,775,971
Fuel, materials, supplies, and other inventories	2,383,682	98,569	189,041	2,671,292	2,280,439
Prepaid insurance and other current assets	73,069	-	-	73,069	84,897
Total current assets	6,828,454	1,220,139	1,279,453	9,328,046	8,316,648
<b>Noncurrent Assets</b>					
Restricted assets (Note 7)	23,780,738	149,519	1,147,212	25,077,469	13,078,445
Bond issuance costs (Note 12)	1,247,670	-	-	1,247,670	791,786
Property, plant, and equipment (Note 5)	47,444,633	8,414,499	3,491,301	59,350,433	61,610,057
Total noncurrent assets	72,473,041	8,564,018	4,638,513	85,675,572	75,480,288
Total assets	<u>\$ 79,301,495</u>	<u>\$ 9,784,157</u>	<u>\$ 5,917,966</u>	<u>\$ 95,003,618</u>	<u>\$ 83,796,936</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt (Note 6)	\$ 3,315,000	\$ -	\$ 375,000	\$ 3,690,000	\$ 2,940,000
Accounts payable	2,211,747	159,034	300,604	2,671,385	1,625,766
Due to City of Wyandotte - Sewage Disposal Fund (Note 9)		666,889		666,889	504,973
Accrued compensation	200,187	53,680	37,153	291,020	196,787
Other accrued liabilities	1,155,824	280,581	321,504	1,757,909	1,771,105
Deferred revenue	-	-	160,328	160,328	172,664
Customer deposits and other current liabilities	587,821	-	194,450	782,271	706,763
Total current liabilities	7,470,579	1,160,184	1,389,039	10,019,802	7,918,058
<b>Liabilities to be Paid from Restricted Assets</b>					
Debt service payable	3,742,642	-	-	3,742,642	3,585,006
Accounts payable	954,951	-	-	954,951	-
Total liabilities to be paid from restricted assets	4,697,593	-	-	4,697,593	3,585,006
<b>Long-term Debt</b> - Net of current portion and amount payable from restricted assets (Note 6)	48,055,885	-	1,916,531	49,972,416	39,960,253
<b>Net Assets</b>					
Invested in property, plant, and equipment - Net of related debt	4,831,527	8,414,499	1,199,770	14,445,796	16,289,804
Restricted (Note 7)	10,325,366	149,519	1,147,212	11,622,097	11,913,439
Unrestricted	3,920,545	59,955	265,414	4,245,914	4,130,376
Total net assets	19,077,438	8,623,973	2,612,396	30,313,807	32,333,619
Total liabilities and net assets	<u>\$ 79,301,495</u>	<u>\$ 9,784,157</u>	<u>\$ 5,917,966</u>	<u>\$ 95,003,618</u>	<u>\$ 83,796,936</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2005				2004
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Operating Revenue</b>	\$ 25,760,613	\$ 2,896,672	\$ 5,777,848	\$ 34,435,133	\$ 30,631,013
<b>Operating Expenses</b>					
Production, pumping, and purification	16,668,762	691,320	-	17,360,082	13,064,168
Distribution	1,013,724	547,943	681,138	2,242,805	2,052,448
Cable television royalties	-	-	2,829,405	2,829,405	2,718,831
Customer service	140,096	51,281	72,826	264,203	297,721
Office and administrative	449,973	207,898	360,750	1,018,621	1,013,805
General and miscellaneous	3,628,718	699,356	1,051,797	5,379,871	4,711,053
Transportation	55,037	24,964	12,457	92,458	71,706
Depreciation	4,910,707	475,341	488,492	5,874,540	5,892,691
Total operating expenses	26,867,017	2,698,103	5,496,865	35,061,985	29,822,423
<b>Operating Income (Loss)</b>	(1,106,404)	198,569	280,983	(626,852)	808,590
<b>Nonoperating Income (Expenses)</b>					
Gain on sale of asset	19,167	193	35,203	54,563	54,563
Infrastructure revenue	-	-	-	-	(56)
Interest and other income	500,352	122,325	107,665	730,342	484,894
Interest expense	(2,290,024)	-	(101,395)	(2,391,419)	(2,469,037)
Amortization of bond issuance costs	(62,100)	-	-	(62,100)	(62,100)
Total nonoperating income (expenses)	(1,832,605)	122,518	41,473	(1,668,614)	(1,991,736)
<b>Income (Loss) - Before contribution of fixed assets</b>	(2,939,009)	321,087	322,456	(2,295,466)	(1,183,146)
<b>Contribution of Fixed Assets</b>	-	275,654	-	275,654	446,746
<b>Net Income (Loss)</b>	(2,939,009)	596,741	322,456	(2,019,812)	(736,400)
<b>Net Assets - Beginning of year</b>	22,016,447	8,027,232	2,289,940	32,333,619	33,070,019
<b>Net Assets - End of year</b>	<u>\$ 19,077,438</u>	<u>\$ 8,623,973</u>	<u>\$ 2,612,396</u>	<u>\$ 30,313,807</u>	<u>\$ 32,333,619</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows

	Year Ended September 30				
	2005				2004
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 25,638,335	\$ 2,813,778	\$ 5,750,695	\$ 34,202,808	\$ 30,484,246
Cash payments to suppliers for goods and services	(17,285,549)	(1,002,411)	(4,296,030)	(22,583,990)	(17,252,859)
Cash payments to employees for services	(3,800,024)	(890,000)	(886,149)	(5,576,173)	(7,007,782)
Net cash provided by operating activities	4,552,762	921,367	568,516	6,042,645	6,223,605
<b>Cash Flows from Capital and Related Financing Activities</b>					
Infrastructure revenue	-	-	-	-	(56)
Proceeds on long-term debt	13,475,000	-	-	13,475,000	-
Principal and interest paid on long-term debt	(4,710,024)	-	(476,395)	(5,186,419)	(4,797,713)
Bond issuance costs paid	(493,483)	-	-	(493,483)	-
Purchase of capital assets - Net of reimbursements	(1,674,228)	(329,113)	(165,672)	(2,169,013)	(3,257,328)
Net cash used in capital and related financing activities	6,597,265	(329,113)	(642,067)	5,626,085	(8,055,097)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	500,352	122,325	107,665	730,342	484,894
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	11,650,379	714,579	34,114	12,399,072	(1,346,598)
<b>Cash and Cash Equivalents - Beginning of year</b>	13,097,156	220,168	1,885,625	15,202,949	16,549,547
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 24,747,535</u>	<u>\$ 934,747</u>	<u>\$ 1,919,739</u>	<u>\$ 27,602,021</u>	<u>\$ 15,202,949</u>
<b>Reconciliation to Balance Sheet</b>					
Cash and investments	\$ 966,797	\$ 785,228	\$ 772,527	\$ 2,524,552	\$ 2,124,504
Restricted assets	23,780,738	149,519	1,147,212	25,077,469	13,078,445
Total	<u>\$ 24,747,535</u>	<u>\$ 934,747</u>	<u>\$ 1,919,739</u>	<u>\$ 27,602,021</u>	<u>\$ 15,202,949</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows (Continued)

	Year Ended September 30				
	2005				2004
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>					
Operating income (loss)	\$ (1,106,404)	\$ 198,569	\$ 280,983	\$ (626,852)	\$ 808,590
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation/Amortization	4,910,707	475,341	488,492	5,874,540	5,892,691
Loss (gain) on sale of property, plant, and equipment	19,167	193	35,203	54,563	(24,605)
Changes in assets and liabilities:					
Receivables	(122,278)	(82,894)	(27,153)	(232,325)	(146,767)
Inventory	(262,458)	3,291	(131,686)	(390,853)	(368,350)
Prepaid insurance and other current assets	(12,202)	193	23,837	11,828	674,387
Accounts payable	891,953	108,902	44,764	1,045,619	(801,430)
Accrued and other liabilities	134,819	55,856	(109,638)	81,037	66,561
Due to City of Wyandotte	-	161,916	-	161,916	134,864
Deferred revenue	-	-	(12,336)	(12,336)	(12,336)
Customer deposits and other current liabilities	99,458	-	(23,950)	75,508	-
Net cash provided by operating activities	<u>\$ 4,552,762</u>	<u>\$ 921,367</u>	<u>\$ 568,516</u>	<u>\$ 6,042,645</u>	<u>\$ 6,223,605</u>

During the years ended September 30, 2005 and 2004, constructed water mains were donated to the Department in the amount of \$275,654 and \$446,746, respectively.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2005**

#### **Note 1 - Nature of Entity**

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds.

The funds of the Department are included in the basic financial statements of the City at September 30, 2005.

#### **Note 2 - Summary of Significant Accounting Policies**

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Department has not elected to apply private sector standards issued after December 31, 1989.

As a general rule, the effect of interfund activity has been eliminated from the financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the costs and revenues for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2005**

#### **Note 2 - Summary of Significant Accounting Policies (Continued)**

The operating revenue represents billings to customers based primarily on usage by the Department's customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets**

**Cash Equivalents** - Cash equivalents consist of highly liquid investments with an original maturity of three months or less, including certificates of deposit, government investment pools, and other cash management funds. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are reported at fair value, based on quoted market prices.

**Inventories** - Inventories are stated at the lower of cost, determined by the average cost method for general inventory and determined by the first-in, first-out method for coal inventory, or market.

**Significant Customers** - The electric department has two significant customers, Wayne County, Michigan and BASF Corporation, representing approximately 8 percent and 18 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2005.

The water department has four significant customers, BASF Corporation, Wayne County, the Department of Municipal Service's electric department, and Wyandotte Hospital, representing approximately 15 percent, 4 percent, 2 percent, and 2 percent, respectively, of the water department's operating revenue for the year ended September 30, 2005.

**Property, Plant, and Equipment** - Property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is charged as an expense against the operations of the Department on a straight-line basis. No depreciation expense has been recorded for amounts reflected as construction in progress.

**Deferred Revenue** - Deferred revenue relates to a contract in the Cable Television Fund between the Department and Wyandotte Public Schools related to construction and usage of the Department's fiber optic cable system. Monies received in advance will be recognized over the term of the contract.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2005**

#### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Pension Plan** - The Department has a defined benefit retirement plan covering substantially all permanent, full-time employees through participation in the City of Wyandotte Employees' Retirement System. Annual retirement expense includes a provision for funding prior service costs in excess of fund assets on the basis of funding such excess over a remaining period of 12 years as of September 2004. The Department's policy is to fund retirement cost accrued.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Emissions Allowance** - The Environmental Protection Agency has granted emission allowances to the Department related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The Department estimates the allowances needed for future years. As appropriate, the Department may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type is accounted for separately and is not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

There were no purchases or sales of allowances in the current year.

#### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 3 - Deposits and Investments (Continued)

The pension trust fund and retiree health care fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

The Department has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Department's deposits and investment policies are in accordance with statutory authority.

The Department's cash and investments are subject to two types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department does not have a deposit policy for custodial credit risk. At year end, the Department had approximately \$5,172,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Department has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating organization</u>
Bank investment pools	\$ 132,690	AAAm	S&P
Bank investment pools	1,817,466	Aaa	Moody's



**City of Wyandotte, Michigan**  
**Department of Municipal Service**

**Notes to Financial Statements**  
**September 30, 2005**

**Note 4 - Billed and Unbilled Accounts Receivable**

Billed accounts receivable, net of allowance for uncollectible accounts, are as follows:

	2005				2004
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Accounts receivable	\$ 1,623,130	\$ 146,211	\$ 336,455	\$ 2,105,796	\$ 2,202,551
Less allowance for uncollectible accounts	<u>(101,895)</u>	<u>(2,169)</u>	<u>(18,570)</u>	<u>(122,634)</u>	<u>(151,714)</u>
Net accounts receivable	<u>\$ 1,521,235</u>	<u>\$ 144,042</u>	<u>\$ 317,885</u>	<u>\$ 1,983,162</u>	<u>\$ 2,050,837</u>

Unbilled accounts receivable represent services that have been provided to customers through September 30, 2005 for which billings were processed subsequent to year end.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 5 - Property, Plant, and Equipment

	Balance at October 1, 2004	Additions	Disposals and Adjustments	Balance at September 30, 2005
Capital assets being depreciated:				
Utility plant	\$ 92,292,956	\$ 432,182	\$ -	\$ 92,725,138
Transmission	5,768,155	29,613	-	5,797,768
Pumping	1,828,876	289,619	-	2,118,495
Purification	3,752,785	-	-	3,752,785
Distribution	35,842,560	465,703	451	36,307,812
Transportation	1,550,031	65,077	38,857	1,576,251
Stores	775,490	2,056	-	777,546
Cable equipment	997,599	182,200	-	1,179,799
Studio	468,622	4,273	-	472,895
General	2,885,339	223,630	-	3,108,969
Construction in progress	-	1,958,746	-	1,958,746
Total capital assets being depreciated	146,162,413	3,653,099	39,308	149,776,204
Accumulated depreciation:				
Utility plant	51,147,075	3,881,973	-	55,029,048
Transmission	4,126,216	169,652	-	4,295,868
Pumping	811,424	113,869	-	925,293
Purification	2,882,023	104,295	-	2,986,318
Distribution	20,616,815	1,257,077	451	21,873,441
Transportation	1,108,593	101,654	38,857	1,171,390
Stores	538,675	40,770	-	579,445
Cable equipment	581,005	111,935	-	692,940
Studio	406,139	20,152	-	426,291
General	2,334,391	111,346	-	2,445,737
Total accumulated depreciation	84,552,356	5,912,723	39,308	90,425,771
Net capital assets being depreciated	<u>\$ 61,610,057</u>	<u>\$ (2,259,624)</u>	<u>\$ -</u>	<u>\$ 59,350,433</u>

Depreciation of \$4,910,706 and \$4,891,967 for the Electric Fund, \$475,341 and \$459,155 for the Water Fund, and \$488,492 and \$541,569 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2005 and 2004, respectively.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 5 - Property, Plant, and Equipment (Continued)

**Construction Commitments** - At year end, the Department has active construction projects. Commitments with contractors, in which the department expects to utilize bond proceeds are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Steam line expansion	\$ 1,827,660	\$ 4,095,063
Diesel generator	<u>131,086</u>	<u>2,709,529</u>
Total	<u>\$ 1,958,746</u>	<u>\$ 6,806,450</u>

#### Note 6 - Long-term Debt

##### Outstanding Debt

Long-term debt outstanding is as follows:

	<u>2005</u>			<u>2004</u>
	Electric Fund	Cable Television Fund	Total	Total
1992 Revenue Refunding Bonds - Net of unamortized discount and deferred refunding credit	\$ 9,920,000	\$ -	\$ 9,920,000	\$ 12,045,000
2002 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	30,422,046	-	30,422,046	30,608,722
1998 installment purchase agreement		2,291,531	2,291,531	2,666,531
2005A Revenue Bonds - Net of unamortized premium	6,104,826	-	6,104,826	-
2005B Revenue Bonds - Net of unamortized premium	7,489,013	-	7,489,013	-
Less current portion	(3,315,000)	(375,000)	(3,690,000)	(2,940,000)
Less portion payable from restricted assets	<u>(2,565,000)</u>	<u>-</u>	<u>(2,565,000)</u>	<u>(2,420,000)</u>
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 48,055,885</u>	<u>\$ 1,916,531</u>	<u>\$ 49,972,416</u>	<u>\$ 39,960,253</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 6 - Long-term Debt (Continued)

##### Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Department for the years ended September 30, 2005 and 2004:

	2005 Series A Electric System Revenue Bonds (Net of Premium)	2005 Series B Electric System Revenue Bonds (Net of Premium)	2002 Revenue Refunding Bonds (Net of Premium and Deferred Refunding Charge)	1992 Revenue Refunding Bonds (Net of Discount and Deferred Refunding Credit)	1998 Cable Installment Purchase Agreement	Total
Long-term debt - October 1, 2003	\$ -	\$ -	\$ 30,500,398	\$ 14,045,000	\$ 3,041,531	\$ 47,586,929
Debt retired	-	-	-	(2,000,000)	(375,000)	(2,375,000)
Deferred charge on refunding	-	-	167,916	-	-	167,916
Discount amortization	-	-	(59,592)	-	-	(59,592)
Long-term debt - September 30, 2004	-	-	30,608,722	12,045,000	2,666,531	45,320,253
Debt issued	6,000,000	7,475,000	-	-	-	13,475,000
Debt retired	-	-	(295,000)	(2,125,000)	(375,000)	(2,795,000)
Deferred charge on refunding	-	-	167,916	-	-	167,916
Premium (discount) amortization	104,826	14,013	(59,592)	-	-	59,247
Long-term debt - September 30, 2005	<u>\$ 6,104,826</u>	<u>\$ 7,489,013</u>	<u>\$ 30,422,046</u>	<u>\$ 9,920,000</u>	<u>\$ 2,291,531</u>	<u>\$ 56,227,416</u>

**Debt Service Requirements** - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2005, excluding unamortized discount premiums on bonds payable, deferred refunding charges, and current amounts already provided for in restricted assets, are as follows:

Years Ending Sept. 30	2005 Electric Revenue Bonds (Series A&B)				2002 Electric Fund Refunding Bonds		1992 Electric Fund Refunding Bonds		1998 Cable Installment Purchase Agreement		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2006	\$ 600,000	\$ 239,400	\$ -	\$ 305,050	\$ 315,000	\$ 1,492,451	\$ 2,400,000	\$ 478,750	\$ 375,000	\$ 92,273	\$ 6,297,924
2007	600,000	219,900	-	305,050	325,000	1,482,214	2,550,000	328,750	375,000	76,635	6,262,549
2008	600,000	200,400	250,000	305,050	335,000	1,471,651	2,710,000	169,375	375,000	60,998	6,477,474
2009	600,000	179,400	300,000	296,300	2,835,000	1,459,926	-	-	375,000	45,360	6,090,986
2010	600,000	159,000	350,000	285,800	2,945,000	1,355,031	-	-	375,000	44,987	6,114,818
2011-2015	3,000,000	405,000	2,650,000	1,173,125	16,690,000	4,162,191	-	-	416,531	-	28,496,847
2016-2020	-	-	2,050,000	652,000	7,945,000	1,270,381	-	-	-	-	11,917,381
2021-2025	-	-	1,875,000	200,363	-	-	-	-	-	-	2,075,363
Total	<u>\$ 6,000,000</u>	<u>\$ 1,403,100</u>	<u>\$ 7,475,000</u>	<u>\$ 3,522,738</u>	<u>\$ 31,390,000</u>	<u>\$ 12,693,845</u>	<u>\$ 7,660,000</u>	<u>\$ 976,875</u>	<u>\$ 2,291,531</u>	<u>\$ 320,253</u>	<u>\$ 73,733,342</u>

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2005**

#### **Note 6 - Long-term Debt (Continued)**

**Interest** - For the years ended September 30, 2005, total interest costs of \$2,290,024 and \$2,352,001, respectively, were incurred in the Electric Fund. For the years ended September 30, 2004, total interest costs of \$101,395 and \$117,036, respectively, were incurred in the Cable Fund.

**Electric Fund Revenue Bonds** - The 1992 and the 2002 Electric Revenue Refunding Bonds and the 2005 Series A and B Revenue Bonds are payable out of the net revenue of the Electric Fund. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

An agreement has been entered into with BASF for steam service related to the 2005 Revenue Bonds. This agreement provides for reimbursement to the Department for one-half of the principal and associated interest of the 2005 Electric Revenue Bonds (Series A) actually used by the Department to fund the construction of the steam expansion project through 2010.

The revenue bond ordinance contains certain covenants and provisions that, among other matters, relate to the following:

- Segregation of proceeds of the revenue bond issue
- Segregation of Electric Fund revenue
- Segregation of assets for debt service payments
- Segregation of assets for construction of improvements to the system
- Periodic transfers of net revenue to those funds segregated for debt service payments
- Sale, lease, or other disposition of all or any substantial part of the system
- Establishment of rates sufficient to provide for required level of debt service coverage
- Adoption of and adherence to budgeted operation and maintenance expenses

Included in the current assets of the Electric Fund at September 30, 2005 and 2004 is approximately \$259,000 and \$253,000, respectively, earmarked for future repairs of the system pursuant to the ordinance. Also included in the current liabilities of the Electric Fund at September 30, 2005 is that portion of the bond principal that was to be transferred within the next year to the Bond and Interest Redemption Fund for payment of bond principal.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 6 - Long-term Debt (Continued)

The following represents maturity schedules of the outstanding bonds payable:

Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding		
			2005	2004	
Amount of issue - \$61,185,000					
Date of issue - April 1, 1992					
*Amounts were defeased in 2002					
6.25	10/01/04	\$ 2,125,000	\$ -	\$ 2,125,000	
6.25	10/01/05	2,260,000	2,260,000	2,260,000	
6.25	10/01/06	2,400,000	2,400,000	2,400,000	
6.25	10/01/07	2,550,000	2,550,000	2,550,000	
6.25	10/01/08	2,710,000	2,710,000	2,710,000	
6.25	10/01/09	2,875,000	*	*	
6.25	10/01/10	3,060,000	*	*	
6.25	10/01/11	3,245,000	*	*	
6.25	10/01/12	3,455,000	*	*	
6.25	10/01/13	3,665,000	*	*	
6.25	10/01/14	3,900,000	*	*	
6.25	10/01/15	4,140,000	*	*	
6.25	10/01/16	4,400,000	*	*	
6.25	10/01/17	4,675,000	*	*	
Total			\$ 9,920,000	\$ 12,045,000	

**City of Wyandotte, Michigan**  
**Department of Municipal Service**

**Notes to Financial Statements**  
**September 30, 2005**

**Note 6 - Long-term Debt (Continued)**

	Interest		Amount of	Principal Outstanding	
	Rate	Date of	Annual		
	(Percent)	Maturity	Maturity	2005	2004
Amount of issue - \$31,990,000					
Date of issue - July 9, 2002					
	3.25	10/01/04	\$ 295,000	\$ -	\$ 295,000
	3.25	10/01/05	305,000	305,000	305,000
	3.25	10/01/06	315,000	315,000	315,000
	3.25	10/01/07	325,000	325,000	325,000
	3.50	10/01/08	335,000	335,000	335,000
	3.70	10/01/09	2,835,000	2,835,000	2,835,000
	3.85	10/01/10	2,945,000	2,945,000	2,945,000
	4.00	10/01/11	3,050,000	3,050,000	3,050,000
	4.10	10/01/12	3,180,000	3,180,000	3,180,000
	5.38	10/01/13	3,305,000	3,305,000	3,305,000
	5.38	10/01/14	3,485,000	3,485,000	3,485,000
	5.38	10/01/15	3,670,000	3,670,000	3,670,000
	5.38	10/01/16	3,870,000	3,870,000	3,870,000
	5.38	10/01/17	4,075,000	4,075,000	4,075,000
Total face value				31,695,000	31,990,000
Unamortized premium - Net of deferred refunding charge				(1,272,954)	(1,381,278)
Net				\$ 30,422,046	\$ 30,608,722

**City of Wyandotte, Michigan**  
**Department of Municipal Service**

**Notes to Financial Statements**  
**September 30, 2005**

**Note 6 - Long-term Debt (Continued)**

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding 2005
Amount of issue - \$6,000,000				
Date of issue - August 10, 2005				
	3.25	10/01/06	\$ 600,000	\$ 600,000
	3.25	10/01/07	600,000	600,000
	3.50	10/01/08	600,000	600,000
	3.40	10/01/09	600,000	600,000
	3.50	10/01/10	600,000	600,000
	4.50	10/01/11	600,000	600,000
	5.00	10/01/12	600,000	600,000
	5.00	10/01/13	600,000	600,000
	4.50	10/01/14	600,000	600,000
	4.00	10/01/15	600,000	600,000
Total face value				6,000,000
Unamortized premium				<u>104,826</u>
Net				<u><u>\$ 6,104,826</u></u>



**City of Wyandotte, Michigan**  
**Department of Municipal Service**

**Notes to Financial Statements**  
**September 30, 2005**

**Note 6 - Long-term Debt (Continued)**

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding 2005
Amount of issue - \$7,475,000				
Date of issue - September 1, 2005				
	3.50	10/01/08	\$ 250,000	\$ 250,000
	3.50	10/01/09	300,000	300,000
	3.75	10/01/10	350,000	350,000
	3.75	10/01/11	400,000	400,000
	4.00	10/01/12	500,000	500,000
	4.50	10/01/13	525,000	525,000
	4.00	10/01/14	575,000	575,000
	4.50	10/01/15	650,000	650,000
	4.00	10/01/16	375,000	375,000
	4.00	10/01/17	400,000	400,000
	4.00	10/01/18	400,000	400,000
	4.00	10/01/19	425,000	425,000
	4.13	10/01/20	450,000	450,000
	4.15	10/01/21	450,000	450,000
	4.25	10/01/22	475,000	475,000
	4.25	10/01/23	475,000	475,000
	4.25	10/01/24	475,000	475,000
Total face value				7,475,000
Unamortized premium				<u>14,013</u>
Net				<u><u>\$ 7,489,013</u></u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 6 - Long-term Debt (Continued)

**Cable Television Fund Installment Purchase Contract** - In October 1998, the Department entered into a limited tax general obligation installment purchase Contract for the purpose of financing the purchase and installation of a fiber optic cable network for the Department's cable television system. The Department was authorized to borrow up to \$4,500,000 in accordance with the terms of the contract (at closing date of the borrowing in April 2001, the final contract amount was \$3,994,031). Beginning in May 1999, interest-only payments at a rate of 4.16 percent per annum are due semiannually with principal payments due as follows:

	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2005	2004
Amount of contract - \$3,994,031				
Date of issue - October 16, 1998				
Interest rate - 4.16%				
	11/01/04	\$ 187,500	\$ -	\$ 187,500
	05/01/05	187,500	-	187,500
	11/01/05	187,500	187,500	187,500
	05/01/06	187,500	187,500	187,500
	11/01/06	187,500	187,500	187,500
	05/01/07	187,500	187,500	187,500
	11/01/07	187,500	187,500	187,500
	05/01/08	187,500	187,500	187,500
	11/01/08	187,500	187,500	187,500
	05/01/09	187,500	187,500	187,500
	11/01/09	187,500	187,500	187,500
	05/01/10	187,500	187,500	187,500
	11/01/10	187,500	187,500	187,500
	05/01/11	187,500	187,500	187,500
	11/01/11	187,500	41,531	41,531
Total			\$ 2,291,531	\$ 2,666,531

The installment liabilities are general obligations of the City of Wyandotte and the City would be held responsible should the revenue of the Cable Television Fund prove insufficient to retire the obligations.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 7 - Restricted Assets

Certain assets are restricted pursuant to Commission resolution. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Restricted assets consist of the following:

	2005				2004
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Bond proceeds	\$ 12,302,230	\$ -	\$ -	\$ 12,302,230	\$ -
Debt service	8,851,773	-	997,693	9,849,466	9,241,977
Capital improvements	1,878,809	-	-	1,878,809	2,813,320
Retiree health care	747,926	149,519	149,519	1,046,964	1,023,148
Total restricted assets	23,780,738	149,519	1,147,212	25,077,469	13,078,445
Less accrued interest payable from restricted assets	(1,153,142)	-	-	(1,153,142)	(1,165,006)
Less construction costs payable from restricted assets	(954,951)	-	-	(954,951)	-
Net restricted assets	<u>\$ 21,672,645</u>	<u>\$ 149,519</u>	<u>\$ 1,147,212</u>	<u>\$ 24,122,518</u>	<u>\$ 11,913,439</u>

The Electric Fund assets restricted for debt service are pursuant to the 1992 revenue bond ordinance for revenue bond debt service. In conjunction with the bond ordinance, the Commission passed a resolution to reserve retained earnings in the Electric Fund of \$4,741,766, which represents the maximum annual debt service requirement for all outstanding bonds.

Assets have also been restricted in the Electric Fund for future capital improvements and to assist in paying future bond principal and interest payments pursuant to a resolution approved by the Commission.

Assets have been restricted in the Cable Fund to assist in paying future principal and interest payments on the installment purchase contract.

In the Electric, Water, and Cable Funds, monies have been restricted to pay future retiree health care costs, pursuant to a resolution approved by the Commission.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 8 - Defined Benefit Pension Plan

**Plan Description** - The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The City of Wyandotte Employees' Retirement System's financial report (which includes financial statements and required supplementary information for the system) is presented in the City of Wyandotte's September 30, 2005 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2004, the date of the Department's most recent actuarial valuation, membership consisted of the following:

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**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Department's collective bargaining unit and City ordinance. Effective October 1, 1994, employee contributions are no longer required. For the year ended September 30, 2005, the Department's contribution was approximately \$720,000 for the plan, which was equal to the Department's required and actual contribution.

#### Three-year Trend Information

Funding information for the Department's participation in the pension plan for the fiscal years ended September 30 is as follows:

	2005	2004	2003
Annual pension cost (APC)	\$ 720,000	\$ 488,000	\$ 445,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2005

#### Note 8 - Defined Benefit Pension Plan (Continued)

**Additional Information** - The Department's 2005 contribution represented approximately 27 percent of total contributions required of all participating entities. The assets of the entire system can be called upon to satisfy the obligations of any particular division since the system is ultimately a Citywide PERS. The valuation payroll for all employees covered by the system for the year ended September 30, 2005 was approximately \$12,997,000. The Department's covered payroll was approximately \$5,604,000.

#### Note 9 - Related Party Transactions

City-owned facilities are users of Department electric and water services. The Department includes its revenue charges from the sale of such services. Pursuant to the revenue bond ordinance, the Department charges the City for street and public safety lighting services. The Department has performed a cost of service study, which will likely result in a change to this charge in future periods. In turn, the City has charged the Department an equal amount for services in lieu of property taxes. The Department also provides billing and cash collection services for the City's sewer use charges, which are then remitted to the City upon collection. The Department earns a related collection fee for these services.

Included in the Department's expenses is a franchise fee payable to the City equal to 5 percent of the gross revenue of the Cable Television Fund. This percentage will increase to 8 percent for the 2005-2006 year end.

A summary of these transactions with the City for the years ended September 30, 2005 and 2004 is as follows:

	2005	2004
Department revenue:		
Electric and water services	\$ 523,167	\$ 260,613
Street and public safety lighting	433,019	435,174
Collection fee	83,786	80,335
Department expenses:		
In lieu of property taxes	(433,019)	(435,174)
Cable television franchise fee	(288,447)	(274,209)
Remittances to City for sewer use charge collections	(3,050,000)	(2,730,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(666,889)	(504,973)
Water mains contributed by the City	275,654	446,746

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2005

#### Note 10 - Risk Management

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Department has purchased commercial insurance for claims related to general liability and medical benefits. The Department is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Workers' Compensation** - All claims incurred are the responsibility of the Department up to \$850,000 per employee (in the case of disease) or \$850,000 per accident (for bodily injury). The Department has purchased commercial insurance coverage for claims incurred, which exceed the amounts previously described.

The Department estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Department's Electric Fund, Water Fund, and Cable Television Fund. Changes in the estimated liability were as follows:

Estimated liability - October 1, 2003	\$ 449,924
Estimated claims incurred, including changes in estimates	143,419
Claim payments	<u>(31,047)</u>
Estimated liability - September 30, 2004	562,296
Estimated claims incurred, including changes in estimates	(21,823)
Claim payments	<u>16,223</u>
Estimated liability - September 30, 2005	<u><u>\$ 556,696</u></u>

#### Note 11 - Contingencies

In March 2005, United Skilled Trades, Inc. (UST) filed a suit against the Department and others. UST alleges that it is owed money from the Department for services rendered pursuant to a contract for repair of a turbine. UST alleges that the Department is indebted to them in the amount of \$1,150,000. The Department is vigorously defending its position that no material amounts are due to UST. Consistent with the Department's position, no payable has been recorded in the Department's financial statements at September 30, 2005 related to this matter.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2005**

#### **Note 11 - Contingencies (Continued)**

The Department also continues to be involved in various contingent matters arising in the normal course of operations. While insurance coverage and other potential remedies are available in certain circumstances to varying degrees, no opinion can currently be given as to the ultimate outcome of these matters. No provision has been made for the ultimate liability, if any, that may result from the resolution of these matters.

#### **Note 12 - Bond Issuance Costs**

During the years ended September 30, 2005 and 2002, the Department incurred bond issuance costs in the amount of \$517,983 and \$931,515 respectively. The 2005 bond issuance costs related to new debt issuances (Series 2005A and 2005B) and the 2002 bond issuance costs related to the 2002 revenue refunding bonds. Amortization expense for the 2002 revenue refunding amounted to \$62,100 for the years ended September 30, 2005. There was no amortization expense for the 2005 debt issuances.

#### **Note 13 - Postemployment Benefits**

The Department provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 69 retirees are eligible. The Department includes pre-Medicare retirees and their dependents in its insured health care plan, with some contribution required by most participants, depending upon employee group classifications. The Department purchases Medicare supplemental insurance for retirees eligible for Medicare. Net expenditures for postemployment health care benefits are recognized in the Electric and Water Funds as the insurance premiums become due; this amounted to approximately \$413,000 and \$73,000, respectively, during the year ended September 30, 2005 and \$426,000 and \$69,000, respectively, during the year ended September 30, 2004.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008.

January 18, 2006

Municipal Service Commission  
City of Wyandotte Department  
of Municipal Service  
3005 Biddle Avenue  
Wyandotte, MI 48192

Members of the Municipal Service Commission:

We have recently completed our audit of the financial statements of the Department for the year ended September 30, 2005. As a result of our audit, we offer the following comments and recommendations for the Department's consideration in several areas of both an operations and an internal control nature.

## **ELECTRIC FUND**

### **OPERATING RESULTS AND LONG TERM PLANNING**

The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of the annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio". While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year did not exceed 110 percent (approximately 88 percent for the year ended September 30, 2005). Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department had to amend its budget in order to comply with this ordinance. The debt service coverage ratio result for the year of 88 percent and the need for budget amendments were due to significantly increased power production and fuel costs over last year and over the Department's original budget. The 2005 Electric Fund budget was contingent on controlling power production costs through negotiated purchase power arrangements which did not materialize.

For the year ended September 30, 2005, the Electric Fund's operating results decreased from an operating income of approximately \$806,000 in 2004 to an operating loss of approximately \$1,106,000 in 2005. This caused the Department to use its liquid working capital (as well as monies from the capital improvement restricted asset account with the permission of the Commission) to finance operations. The decrease in operating income was again the direct result of a significant increase in power production costs of approximately \$4,214,000, a majority of which is attributable to coal expense (approximately \$2.7 million) and purchased power (approximately \$676,000). In November 2005, the Department implemented an increase to its power supply adjustment rider to recover excess power production and fuel costs. The ultimate cost of the 2004 turbine repair project is still not known, as the matter between the contractor and the Department remains in dispute. If the Department ultimately is responsible for more costs on the 2004 turbine repair project, this could be an additional burden on the Department's limited working capital. We encourage the Department to continue to closely monitor the operating performance of the Electric Fund with special emphasis on its power production and fuel costs, particularly in light of the continuing rate and operating expense covenants. The Department has historically reviewed these matters more closely midway through the year to determine the need for adjustments, if any. We encourage the Department to continue this practice, particularly in 2006.



**ELECTRIC FUND** (continued)

**RESERVES AND LONG-TERM PLANNING**

In the past, the Department established reserves within the Electric Fund to call bonds and to fund future capital improvements. The Department used the bond call reserve as part of its refinancing of the 1992 revenue refunding bond issue several years ago. The capital improvement account was established to provide the Department with the ability to perform capital improvements when they are necessary and when money is not available from the Department's working capital. The capital improvement account has a balance of approximately \$1,879,000 restricted for this purpose at September 30, 2005 (which is net of the current year withdrawal of \$1,000,000 used for operating costs). We continue to encourage the Department to review its capital spending on a multi-year basis to determine the adequacy of its working capital, capital reserves, and customer rates. With the decline in operating results in 2005, corresponding decrease in working capital, and use of capital funds to finance operations in 2005, the Electric Fund's resources for additional capital spending have been substantially reduced. As previously indicated, the Department increased the power supply adjustment rider twice in 2005 to recover excess power production and fuel costs. It has been several years since the Department has performed a cost of service and utility rate review. We encourage the Department, in light of the developments with power production and fuel costs and the adjustments that have been made to rates, to work with its utility rate consultant to review cost of service and rates.

**WATER FUND**

**OPERATING RESULTS**

The financial performance of the Water Fund has shown considerable improvement in the current year. Although the Water Fund has no meaningful working capital, the current ratio has improved substantially from 2004. The Water Fund's operating results generated a net income in the current year but the Department continues to utilize monies collected on behalf of the City's Sewage Disposal Fund to manage its cash flows. The new reporting format required by GASB 34 reflects unrestricted Water Fund net assets of approximately \$60,000 (compared to a deficit of approximately \$404,000 last year). As indicated in the Water Fund's deficit elimination plan filed with the State for last year, the Department did proceed with rate adjustments to increase the operating revenue of the Water Fund. Additionally, the Water Fund has remained very reliant on annual capital contributions from the City of Wyandotte Tax Increment Financing Authority to fund water main replacement projects. We compliment the Department for the actions taken in the last year to address the financial condition of the Water Fund. The financial condition of the Water Fund has improved, but the Water Fund still has not generated meaningful working capital reserves to fund capital outlay or other operating needs. We recommend that the Department continue to work with its utility rate consultant on the future rate adjustments necessary to continue the improvement in the Water Fund's financial condition.

## **CABLE TELEVISION FUND**

### **CABLE FINANCING AGREEMENT**

In connection with the borrowings on the installment purchase contract for the purpose of constructing the Department's fiber optic cable network, the Commission, by resolution, created a debt retirement account to provide a source of funds to have the option to prepay on the contract in the future. At September 30, 2005, the balance in this account was approximately \$998,000. Since a large portion of net assets is restricted for debt retirement, there are limited monies unrestricted for operations. At September 30, 2005, approximately \$265,000 of unrestricted net assets was available. The cable system's current technology was installed in 1998. We encourage the Department as part of its long-term planning to begin evaluating the investments required to maintain or upgrade this technology and its options in this regard in light of legislative and regulatory attempts by Federal and State government to limit the ability of local governments to provide these services.

## **GENERAL MATTERS**

### **RETIREE HEALTH CARE**

The Commission has established separate accounts to accumulate monies for retiree health care. In the resolution that created these accounts, the Commission is to determine annually the amount, if any, to be transferred within the Electric Fund, the Water Fund, and the Cable Fund from operating cash into the retiree health care restricted accounts. The Department has not appropriated additional monies for this purpose in the last several years. As expected, the Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governments and related organizations in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. As a result, the Department will need to budget more than just its actual out-of-pocket costs for these benefits. While it will be several years before the standards become effective, we continue to encourage the Department to work with its actuary to perform a valuation analysis on this benefit to provide the Department an estimate of the projected cost that will be added to its budget when the statement becomes effective as early as the year ending September 30, 2008.

### **ACCOUNTING AND CONTROL MATTERS**

As with prior year's audit, we were required to incorporate Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement* as part of our audit. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. The comments noted below are, in part, a result of the additional procedures applied through the implementation of SAS 99:

- As part of the audit in the past, we have discussed with the Department the assignment of responsibilities and the balance of segregation of duties given the practical considerations of size of the organization. We continue to encourage the Department to review the assignment of responsibilities, while considering the segregation of duties.

## ACCOUNTING AND CONTROL MATTERS (continued)

As you are aware, segregation of duties is an important component to any organization's system of internal control. With the current assignment of responsibilities, there is limited time devoted throughout the year to detail reconciliation activities and financial analysis including bank and other monthly account reconciliation work. A variety of management functions not directly related to the Department's accounting are now performed by finance which directly impact the ability of finance to timely complete all accounting and reconciliation functions. Creating additional time for accounting staff to perform these activities will continue to improve the Department's financial reporting process. We recommend that the Department review the current assignment of responsibilities related to its accounting functions and that the Department consider alternative staffing models, including hiring additional accounting support personnel, re-assigning duties among existing staff, and/or working with the City's Finance Department to share resources in this area. To further strengthen controls, reconciliations should also be reviewed by someone independent of the reconciliation process. Realigning the assignment of duties will also enhance segregation of duties.

- Like many organizations, written policies and procedures do not always exist for all the Department's operating practices. For example, the Department has several credit card arrangements. We encourage the Department to develop a credit card policy in order to comply with the new State law requiring units of government to have a written, board-approved credit card policy.
- There were a number of un-reconciled variations between the finance department's inventory/fixed asset records and those records maintained by the warehouse for transformers. We recommend that the Department monitor field transformers more closely by generating a monthly/quarterly report of those removed from or returned to the yard as well as those completely removed from service. In addition to generating these reports within the warehouse department, we suggest that those records are communicated to the finance department and reconciled with the general ledger on a regular basis. We also recommend that any adjustments made on or near year end are communicated to the finance department and reflected in their records accordingly. During the physical inventory, we noted several other minor discrepancies as well. We encourage the Department to review its counting and reconciling procedures before the Department's next year end physical inventory. Finally, while the Department performs a complete physical inventory annually in conjunction with the Department's year end, we encourage the Department to continue to use cycle counting of inventory to periodically ensure the integrity of the amounts recorded in the general ledger.
- As a direct result of our testing of the accounts payable system, we noted that the Department had several issues with year-end cut off procedures to ensure inclusion of expenses within the proper reporting periods and as a result, significant adjustments were required to accounts payable. In the past, the Department has conducted training of its staff on this subject. We encourage the staff who are entering accounts payable into the system to review these matters, with particular focus at quarter and year end.

**ACCOUNTING AND CONTROL MATTERS (continued)**

- The Department has implemented most of the HTE financial management system. However, the Department has not migrated the fixed asset accounting into the HTE system. We continue to encourage a migration of the data from the old system to the new system, and caution that this implementation will require a time investment by Department staff. At conversion, the Department should consider reviewing all of its fixed asset information, to delete any assets from the system that are no longer in use and/or modify useful lives as appropriate. Many organizations use this opportunity to perform a physical inventory of its fixed asset records resulting in more accurate information for both accounting and insurance purposes.

**CONCLUSION**

We have previously reviewed the content of this letter with the Commission's Finance Subcommittee and management and would be happy to further discuss these items if you desire. We would like to take this opportunity to thank all Department personnel for their cooperation and assistance during the course of the audit.

Very truly yours,

**PLANTE & MORAN, LLP**



Frank W. Audia